

THE COUNTY COMMISSIONERS OF CAROLINE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

1. Summary of significant accounting policies

Caroline County (the County) was created by an act of the Maryland General Assembly on December 23, 1773. The County operates under a Commissioner form of government and provides the following services: education, public safety (fire and police), health and social services, highways and streets, public works, library, recreation and parks, planning and zoning, economic development and general administration.

In 1984, the citizens of the County voted to establish Caroline County as a Code Home Rule County, which allows the Commissioners to exercise the powers of self-government over local matters.

The County's financial statements are prepared in accordance with U.S. generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the County has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the County has chosen not to do so. The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Reporting Entity

The financial statements of the reporting entity include those of Caroline County Government (the primary government) and its component units. Component units are legally separate entities that are included in the County's reporting entity because of the significance of their operating or financial relationships with the County. The criteria for including organizations as component units within the County's reporting entity include whether:

- the organization is legally separate
- the County Commissioners appoint a voting majority of the organization's board
- the County Commissioners have the ability to impose their will on the organization
- the organization has the potential to impose a financial benefit/burden on the County
- the organization is fiscally dependent on the County

THE COUNTY COMMISSIONERS OF CAROLINE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

1. **Summary of significant accounting policies (continued)**

A. **Reporting Entity (continued)**

Based on the application of these criteria, the following organizations are considered component units of Caroline County Government. Their combined financial data is discretely presented in a separate column in the government-wide financial statements. A Combining Statement of Net Assets and a Combining Statement of Activities for the component units are also provided. All discretely presented component units have a June 30 year end.

The **Board of Education of Caroline County, Maryland (the Board of Education)** is a legally separate organization created by Maryland state law to operate the County's public school system. Management of the County's schools is under the control of the Board of Education, with the final decision-making authority held by the State Board of Education. The Board of Education is financially accountable to the Caroline County Government because the Board of Education's annual budget is subject to the approval of the County Commissioners. The Board of Education is presented as a governmental fund type. The County provided \$12,299,444 in operating funding and \$1,627,683 in capital funding to the Board of Education during Fiscal Year 2012.

The **Board of Library Trustees for Caroline County, Maryland (the Library)** is a legally separate entity under Maryland state law. The Library's Trustees are appointed by the Governor of the State of Maryland and oversee the day-to-day management of the Library. The Library's budget is subject to the approval of the County Commissioners. The Library is presented as a governmental fund type. The County provided \$1,100,000 in operating funding and \$11,050 in capital funding to the Library during Fiscal Year 2012.

Complete financial statements of the discretely presented component units can be obtained directly from their respective administrative offices.

B. **Basic Financial Statements**

The County's basic financial statements include government-wide financial statements (reporting on the County as a whole), fund financial statements (reporting the County's most significant funds), and fiduciary financial statements. Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. Governmental activities are normally supported by taxes and intergovernmental revenues. The County's public safety, health and social services, some parks and recreation activities, public works and general administrative services are classified as governmental activities. Business-type activities rely significantly on fees and charges for support. The County's recreation programs, basic life support, public works sales and broadband supply operations are classified as business-type activities.

THE COUNTY COMMISSIONERS OF CAROLINE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

1. **Summary of significant accounting policies (continued)**
B. **Basic Financial Statements (continued)**

Government-wide Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government and its component units. The government-wide financial statements focus more on the sustainability of the County as an entity and the change in the County's net assets resulting from the current year's activities. For the most part, the effect of interfund activity has been removed from these statements. Interfund services provided and used are not eliminated in the process of consolidation.

In the government-wide Statement of Net Assets, both the governmental and business-type activities columns are (a) presented on a consolidated basis by column, and (b) reported using the economic resources measurement focus and the accrual basis of accounting, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The County's net assets are reported in three parts – (1) invested in capital assets, net of related debt; (2) restricted net assets; and (3) unrestricted net assets. Net assets should be reported as restricted when constraints placed on the net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations or other governments or imposed by law through constitutional provisions or enabling legislation. The net assets restricted for other purposes result from special revenue funds and the restrictions on their net asset use. When both restricted and unrestricted resources are available for use, the County utilizes restricted resources to finance qualifying activities first, then unrestricted resources as they are needed.

The government-wide Statement of Activities reports both the gross and net cost of each of the County's functions and business-type activities. The functions are also supported by general government revenues (property tax, income tax, certain intergovernmental revenues, fines, permits, and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating grants and capital grants. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Program revenues must be directly associated with the function or a business-type activity. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants. The net costs (by function or business-type activity) are normally covered by general revenues (property tax, income tax, intergovernmental revenues, interest income, etc.) which are not properly included among program revenues.

The County has an indirect cost allocation plan which it uses (when applicable and allowed) to charge costs to special revenue (grant) programs. Indirect costs are not normally charged to general government activities.

THE COUNTY COMMISSIONERS OF CAROLINE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

1. **Summary of significant accounting policies (continued)**
B. **Basic Financial Statements (continued)**

Fund Financial Statements

The financial transactions of the County are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses.

The emphasis in fund financial statements is on the major funds in either the governmental or business-type activities categories. GASB 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues, or expenditures/expenses of either fund category or the governmental and enterprise funds combined) for the determination of major funds. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements. Nonmajor funds by category are summarized into a single column.

Governmental Funds: The measurement focus of the governmental fund financial statements is upon determination of financial position and changes in financial position (sources, uses, and balance of financial resources) rather than upon net income. The following is a description of the governmental funds of the County:

- a. **General Fund** is the general operating fund of the County. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund is considered a major fund.
- b. **Special Revenue Funds** are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. All Special Revenue Funds of the County, with the exception of the Special Grants Fund, are non-major funds. The Special Grants Fund is used to track intergovernmental revenues sources used towards economic development.
- c. **Capital Projects Funds** are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by business-type/proprietary funds) such as roads projects and property acquisition and development. The Capital Improvements and Capital Reserve Funds are major funds, and are used to account for all current major construction projects.

Proprietary Funds: The focus of proprietary fund measurement is upon determination of operating income, changes in net assets, financial position, and cash flows. The generally accepted accounting principles applicable are similar to those used for businesses in the private sector. The following is a description of the proprietary funds of the County:

THE COUNTY COMMISSIONERS OF CAROLINE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

1. **Summary of significant accounting policies (continued)**

B. **Basic Financial Statements (continued)**

Enterprise Funds are required to be used to account for operations for which a fee is charged to external users for goods or services and the activity (a) is financed with debt that is solely secured by a pledge of net revenues, (b) has third party requirements that the cost of providing services, including capital costs, be recovered with fees and charges or (c) establishes fees and charges based on a pricing policy designed to cover similar costs. The Basic Life Support Fund and Broadband Supply Fund are considered major funds and are presented separately. All other enterprise funds are non-major, and their data is combined into a single aggregated presentation.

Fiduciary Funds: Fiduciary Funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support County programs. The reporting focus for fiduciary funds is on net assets and changes in net assets and accounting principles used are similar to those used for proprietary funds.

The County's Fiduciary Funds consist of agency funds and employee benefit trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The County's agency funds temporarily hold collected tax revenues for town taxes, state taxes, motor vehicle tags, public drainage associations, and hotel occupancy taxes, as well as inmates' funds and confiscated property. Employee benefit trust funds are used to account for the County's employee pension plan, a self-funded health plan for County retirees, a trust fund established to accumulate funds to pay for health and welfare benefits of future retirees, and the Fireman's Association Length of Service Award Program (LOSAP). The results of operations for these funds are presented in the Statement of Changes in Fiduciary Net Assets.

C. **Basis of Accounting and Measurement Focus**

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied. The measurement focus identifies which transactions should be recorded.

Basis of Accounting

Accrual Basis – Both governmental and business-type activities are presented using the accrual basis of accounting in the government-wide financial statements and the proprietary and fiduciary fund financial statements. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

THE COUNTY COMMISSIONERS OF CAROLINE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

1. **Summary of significant accounting policies (continued)**

C. **Basis of Accounting and Measurement Focus (continued)**

Modified Accrual Basis – The governmental fund financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. “Measurable” means knowing or able to reasonably estimate the amount. “Available” means collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the County considers revenues to be available if they are collected within 60 days after year-end. All other revenue items are considered to be measurable and available only when cash is received by the County. Expenditures (including capital outlay) are recorded when the related liability is incurred. However, debt service expenditures (principal and interest), as well as expenditures related to compensated absences and claims and judgments, are recorded only when due.

Measurement Focus

In the government-wide financial statements, both governmental and business-type activities are presented using the economic resources measurement focus as defined in item (b.) below.

In the governmental fund financial statements, the “current financial resources” measurement focus is used as appropriate:

- a. All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The proprietary funds utilize an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.

In applying the susceptible to accrual concept to operating and capital grants, which are classified with intergovernmental revenues in the fund financial statements, the County records receivables when the applicable eligibility requirements, including time requirements, are met. Related revenues are recognized to the extent that cash is expected to be received within one year of year-end. Resources received before the eligibility requirements are met are reported as deferred revenue.

THE COUNTY COMMISSIONERS OF CAROLINE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

1. **Summary of significant accounting policies (continued)**

C. **Basis of Accounting and Measurement Focus (continued)**

Licenses and permits, charges for services, and miscellaneous revenues (except earnings on investments) are generally recorded as revenues when received in cash during the year. At year-end, receivables are recorded for significant amounts due. If such amounts are received in cash after year-end within the County's 60-day availability period, they are recognized as revenue; if not, such amounts are reported as deferred revenue.

D. **Financial Statement Amounts**

Cash and Cash Equivalents: The County has defined cash and cash equivalents to include cash on hand, demand deposits, and short-term securities and certificates of deposit with an original maturity of three months or less.

Investments: Investments held by the County are stated at fair value. Fair value is based on quoted market prices at year-end or best available estimate. All investments not required to be reported at fair value are stated at cost or amortized cost.

Receivables: All trade and property tax receivables are reported at their fair value. Taxes, special assessments, and accrued interest are deemed collectible in full. Property taxes attach as an enforceable lien when levied on July 1 of each fiscal year. The taxes are payable without interest by September 30.

Property tax revenue is recorded when it becomes measurable and available. Available means due, or past due, and receivable within the current period and collected no longer than 60 days after the close of the current period. Revenue relating to receivables which have not been collected within sixty days after the year-end has been reclassified from property tax revenues to deferred revenues.

Interfund Transactions: The following is a description of the basic types of interfund transactions made during the year and related accounting policies:

- a. Transactions for services provided – these transactions are recorded as revenues in the receiving fund and expenditures in the disbursing fund.
- b. Transactions to reimburse a fund for expenditures made by it or for the benefit of another fund – these transactions are recorded as expenditures in the disbursing fund and as reductions of expenditures in the receiving fund.
- c. Transactions to shift revenues or contributions from the fund budgeted to receive them to the fund budgeted to expend them – these transactions are recorded as transfers in and out.

THE COUNTY COMMISSIONERS OF CAROLINE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

1. **Summary of significant accounting policies (continued)**

D. **Financial Statement Amounts (continued)**

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/due from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances" and are eliminated.

Inventories: Inventories of the County, consisting of expendable supplies held for the County's sale and use, are valued at cost using the First-In/First-Out Method.

Prepaid Items: Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements using the allocation method.

Capital Assets: Capital assets, which include property, plant, equipment and infrastructure assets (e.g. roads, bridges, and similar items), are reported in applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the County and the Board of Education as assets with an original, individual cost of \$5,000 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. The Library defines capital assets as assets having an initial individual cost of more than \$500 and an estimated useful life in excess of one year. For the primary government and component units, donated capital assets are recorded at estimated fair market value at the date of donation.

Normal maintenance and repair costs that do not add to the value of the assets or materially extend assets' lives are not capitalized by the County or the component units.

Significant outlays for capital assets and improvements are capitalized as Construction in Progress while projects are being constructed. Projects are not capitalized until completed or substantially completed and available for use.

Property, plant and equipment of the primary government and the component units are depreciated using the straight-line method over the following estimated useful lives:

Caroline County Government

Infrastructure	7-40 years
Buildings	40 years
Improvements	10 – 30 years
Machinery and equipment	5 – 10 years
Vehicles	5 years
General capital assets	10 – 40 years

THE COUNTY COMMISSIONERS OF CAROLINE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

1. **Summary of significant accounting policies (continued)**

D. **Financial Statement Amounts (continued)**

The Board of Education

Buildings and improvements	15 – 50 years
Furniture and equipment	5 – 20 years
Vehicles	6 – 15 years
Software	5 – 7 years

The Library

Furniture and equipment	5-10 years
Vehicles	5 years
Books and materials	7 years
Leasehold improvements	30 years

GASB 34 requires the County to report and depreciate new infrastructure assets effective July 1, 2002. Infrastructure assets include roads, bridges, underground pipe, etc. These infrastructure assets are the largest asset class of the County. Neither their historical cost nor related depreciation has historically been reported in the financial statements. Prior to July 1, 2002, these general infrastructure assets were not capitalized. These assets have been valued at estimated historical cost.

Fund Equity: In the government-wide financial statements, equity is classified as net assets and is displayed in three components:

- a. Invested in capital assets, net of related debt – consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net assets – consists of net assets with constraints placed on their use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets – all other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

In the fund financial statements, equity is classified as fund balance for governmental funds. Fund balance is further classified as nonspendable, restricted, committed, assigned, or unassigned. Nonspendable fund balance cannot be spent because of its form. Restricted fund balance has limitations imposed by creditors, grantors, or contributors or by enabling legislation or constitutional provisions. Committed fund balance is a limitation imposed by the County Commissioners, through approval of resolutions. Assigned fund balance is a limitation imposed by a designee of the

THE COUNTY COMMISSIONERS OF CAROLINE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

1. **Summary of significant accounting policies (continued)**

D. **Financial Statement Amounts (continued)**

County Commissioners. Unassigned fund balance in the General Fund is the net resources in excess of what can be properly classified in one of the above four categories. Negative unassigned fund balance in other governmental funds represents excess expenditures incurred over the amounts restricted, committed, or assigned to those purposes.

Proprietary fund equity is classified the same as in the government-wide statements.

Compensated Absences: Employees of the County earn annual leave, compensatory time and sick leave in varying amounts. It is the County's policy to permit employees to accumulate earned but unused annual leave, compensatory time, and sick pay benefits.

The County accrues the value of the accumulated unpaid annual leave, compensatory time, sick leave and associated employee-related costs when incurred in the government-wide and proprietary fund financial statements. The General Fund has typically been used in prior years to liquidate these compensated absences. Only the amount of unused annual leave and compensatory pay that has matured (i.e., the amount due and payable following a former employee's resignation or retirement) is recorded as an expenditure and a liability in the governmental fund that will pay it. The noncurrent portion for governmental funds is maintained separately and represents a reconciling item between the fund and government-wide presentations.

Long-term Obligations: In the government-wide financial statements, and proprietary fund-types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets.

In the fund financial statements, governmental fund-types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financial sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures. Capital leases are recorded in the same manner.

THE COUNTY COMMISSIONERS OF CAROLINE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

1. **Summary of significant accounting policies (continued)**

D. **Financial Statement Amounts (continued)**

Revenues, Expenditures, and Expenses: Property taxes and interest assessed in the current fiscal period are accrued and are recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be earned and therefore recognizable as revenue of the current period.

In the government-wide financial statements, expenses are classified by function for both governmental and business-type activities. In the fund financial statements, expenditures are classified by character.

In the fund financial statements, governmental funds report expenditures of financial resources. Proprietary funds report expenses relating to use of economic resources. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses result from providing services and producing goods in connection with the proprietary fund's principal operations. Operating revenues include user fees and charges. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Accounting Estimates: The preparation of financial statements in conformity with U. S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

2. **Stewardship, Compliance, and Accountability**

Budgets and Budgetary Accounting

A legal budget is adopted and formal budgetary accounting is employed as a management control for most funds of the County, except fiduciary funds. Budgets were not adopted for the OJP Grant Law Enforcement, Dayspring Townhomes, MEAF Revolving Loan and Revolving Loan Special Revenue Funds. Budgetary comparison schedules are presented for the General Fund, Capital Improvements Fund, Capital Reserve Fund and all other funds with legally adopted annual budgets. The basis for budgeting is the modified accrual basis, excluding certain expenditures such as compensated absences, which results in non-GAAP basis. All annual appropriations lapse at fiscal year-end.

THE COUNTY COMMISSIONERS OF CAROLINE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

2. Stewardship, Compliance, and Accountability (continued)
Budgets and Budgetary Accounting (continued)

The legal level of budgetary control (that is, the level at which expenditures cannot exceed budgeted appropriations) is at the department level. However, with proper approval by the County Commissioners, budget transfers can be made. The budgeted financial statements represented in this report reflect the final budget authorization, including all amendments made by the County Commissioners. There were no material violations of the annual appropriated budget for the fiscal year ended June 30, 2012.

3. Cash Deposits and Investments

A. Primary Government

The County Commissioners are authorized to invest unexpended revenues from taxation, bond sales, lawful distributions to it of funds from other governmental agencies, or any other funds properly received by it, until it determines the funds are needed for proper public purposes. The County's investment policy (adopted October 31, 1995) permits investment only in those types of securities authorized by State Finance and Procurement Article Section 6-222(a) and Article 95, Section 22-22N of the Annotated Code of Maryland.

Cash Deposits: At year-end, the carrying amount of the County's deposits was \$1,986,089 and the bank balance was \$2,253,611, all of which was covered by federal depository insurance or by collateral held by the County's agent in the County's name.

Investments: Statutes authorize the County Comptroller to invest in short-term U.S. government securities or repurchase agreements fully secured by the United States government if the funds are not needed for immediate disbursement. The stated maturities of the investments may not exceed 270 days. Statutes also authorize the Comptroller to invest in the local government investment pool established by state law. Investments are subject to approval of the County Commissioners as to the amount available for investment and the acceptable securities or financial institutions used. The County's investment policy limits authorized investments to those with minimal credit risk.

At year-end, the County's investment balances were as follows:

<u>Investment Type</u>	<u>Fair Value</u>
Maryland Local Government Investment Pool	\$ 3,916,129

Investments in the Maryland Local Government Investment Pool (MLGIP) are not evidenced by securities. The investment pool, not the participating governments, faces the custodial credit risk. The State Treasurer of Maryland exercises oversight responsibility over the MLGIP. A single financial institution is contracted to operate the Pool. In addition, the State Treasurer has established an advisory board composed of

THE COUNTY COMMISSIONERS OF CAROLINE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

3. **Cash Deposits and Investments (continued)**
B. **Primary Government (continued)**

Pool participants to review the activities of the contractor quarterly and provide suggestions to enhance the return on investments. The MLGIP uses the amortized cost method to compute unit value rather than market value to report net assets. Accordingly, the fair value of the position in the MLGIP is the same as the value of the MLGIP shares. The MLGIP is rated AAAM by Standard and Pools. As of June 30, 2012, the County's investments, for both custodial and credit risk purposes, consisted solely of shares in the MLGIP. This investment is not deemed to have either risk and is in conformity with the County's policy relating to minimal credit risk of investments. The Pool is managed as a Rule 2a-7 pool. Therefore, the County faces no interest rate risk.

Fiduciary Fund Investments: The Caroline County Employees Pension Plan, Other Postemployment Benefit Plan, Fireman's Length of Service Award Program (LOSAP) Plan, and Retiree Health Care Fund are authorized to invest in common stocks, corporate bonds and any other securities in varying proportions when and for as long as, in the opinion of the respective Plan Trustees, prevailing market and economic considerations indicate that it is in the best interest of the respective Plan to do so. Notes 9 and 10 present the details of these plans.

Interest Rate Risk

The following schedule presents the interest rate risk for fiduciary fund types (increasing interest rates decrease the value of the bonds) based on maturity of the bonds held.

Maturities	
Cash and equivalents	\$ 1,013,747
Less than 1 year	655,114
1-5 years	3,299,182
5-10 years	2,174,500
10-15 years	567,544
15-20 years	-
Total	<u>\$ 7,710,087</u>

Foreign currency risk

It is the County's policy to minimize foreign currency risk by limiting foreign asset investments for the Employees' Pension Plan and the OPEB Trust. The total exposure to foreign currency risk as of June 30, 2012 was \$100,181 and \$150,271 for the Employees' Pension Plan and the OPEB Trust, respectively.

THE COUNTY COMMISSIONERS OF CAROLINE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

3. Cash Deposits and Investments (continued)

B. Component Units

At year-end, the carrying amount of the deposits of the Board of Education, a discretely presented component unit, was \$2,257,344 and the bank balance was \$2,149,827. At year-end, all of the Board's deposits were fully covered by Federal depository insurance and/or collateral pledged in the Board's name.

At year-end, the carrying amount of the deposits of the Caroline County Public Library, a discretely presented component unit, was \$26,433 and the bank balance was \$41,931, all of which was covered by Federal depository insurance.

At year-end, the Board of Education's investment balances were as follows:

<u>Investment Type</u>	<u>Fair Value</u>
Maryland Local Government Investment Pool	\$ 10,534,578

At year-end, the Caroline County Public Library's investment balances were as follows:

<u>Investment Type</u>	<u>Fair Value</u>
Maryland Local Government Investment Pool	\$ 704,456

4. Receivables

The County's real property tax is levied each July 1 on the assessed values certified as of that date for all taxable real property located in the County. Assessed values are established by the Maryland State Department of Assessments and Taxation as predetermined percentages of estimated market value. Payments are due by September 30. Beginning October 1, interest is charged each month on taxes that remain unpaid. At the owner's option, taxes on owner-occupied residential property may be paid on a semiannual basis, the second half of the taxes being due December 31 with a 1.65% service and administrative fee. Properties with delinquent taxes are sold at public auction in June of each year.

THE COUNTY COMMISSIONERS OF CAROLINE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

5. Interfund transactions

As of June 30, 2012, interfund receivables and payables that resulted from various interfund transactions were as follows:

	Interfund Receivable	Interfund Payable
<u>Primary government:</u>		
General Fund	\$ 385,223	\$ 321,145
<u>Special Revenue Funds:</u>		
OJP Grant Law Enforcement	507	-
Drug Task Force	-	4,906
CDBG	-	117,359
Emergency Management Grant	-	135,115
Total Special Revenue Funds	507	257,380
<u>Capital Projects Funds:</u>		
Capital Improvements	72,262	98,025
Capital Reserve	438,560	30,240
Total Capital Projects Funds	510,822	128,265
<u>Agency Funds:</u>		
Tax Sale Proceeds	-	84
<u>Enterprise Funds:</u>		
Broadband Supply	-	189,678
<u>Component units:</u>		
Board of Education	543,995	543,995
Board of Library Trustees	496	496
Total Component Units	544,491	544,491
	\$ 1,441,043	\$ 1,441,043

Most frequently, interfund receivables and payables are used by the County to cover temporary cash deficits in individual funds until grant funds are received. Occasionally, these receivables and payables are used in lieu of short-term external borrowing.

THE COUNTY COMMISSIONERS OF CAROLINE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

5. Interfund transactions (continued)

Interfund transfers represent a transfer of resources from one fund to another without expectation of repayment. During the fiscal year ended June 30, 2012, operating transfers were made between the following funds to help defray costs incurred in those respective funds. A summary of interfund transfers by fund for the year ended June 30, 2012 is as follows:

	Transfers In	Transfers Out
General Fund	\$ 1,007,114	\$ 230,233
Special Revenue Funds:		
State Agricultural Land Preservation	-	20,000
4-H Park	29,794	-
Total special revenue funds	29,794	20,000
Capital Projects Funds:		
Educational Facilities	-	100,000
Capital Improvements	73,000	-
Total capital projects funds	73,000	100,000
Enterprise Funds:		
Basic Life Support	-	675,176
Total enterprise funds	-	675,176
Private purpose trust funds:		
Retiree Health Care	127,439	-
OPEB Trust	-	211,938
Total private purpose trust funds	127,439	211,938
Total	\$ 1,237,347	\$ 1,237,347

THE COUNTY COMMISSIONERS OF CAROLINE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

6. Capital assets

Caroline County

Capital asset activity for the fiscal year ended June 30, 2012 was as follows:

	Beginning Balance	Increases	Transfer / Decreases	Ending Balance
<u>Governmental activities:</u>				
Capital assets, not depreciated:				
Land	\$ 13,095,598	\$ -	\$ (182,087)	\$ 12,913,511
Non-depreciable infrastructure	17,052,974	-	-	17,052,974
Construction in progress	1,730,429	651,004	(2,125,750)	255,683
Total capital assets, not depreciated	31,879,001	651,004	(2,307,837)	30,222,168
Capital assets, depreciated:				
Infrastructure	22,508,453	701,539	1,797,151	25,007,143
Buildings	28,118,026	40,615	-	28,158,641
Improvements	3,294,787	231,838	-	3,526,625
General capital assets	4,637,675	-	(19,363)	4,618,312
Vehicles	2,059,542	-	-	2,059,542
Machinery and equipment	12,035,151	141,259	(197,939)	11,978,471
Total capital assets, depreciated	72,653,634	1,115,251	1,579,849	75,348,734
Less: accumulated depreciation for:				
Infrastructure	(16,455,542)	(717,671)	-	(17,173,213)
Buildings	(15,126,105)	(784,522)	-	(15,910,627)
Improvements	(974,270)	(394,425)	-	(1,368,695)
General capital assets	(3,062,272)	(234,531)	14,716	(3,282,087)
Vehicles	(1,772,119)	(80,251)	-	(1,852,370)
Machinery and equipment	(7,570,944)	(861,418)	190,148	(8,242,214)
Total accumulated depreciation	(44,961,252)	(3,072,818)	204,864	(47,829,206)
Total capital assets, depreciated, net	27,692,382	(1,957,567)	1,784,713	27,519,528
Governmental activities capital assets, net	\$ 59,571,383	\$ (1,306,563)	\$ (523,124)	\$ 57,741,696
<u>Business-type activities:</u>				
Capital assets, depreciated:				
Building and improvements	\$ 455,881	\$ 56,413	\$ -	\$ 512,294
Less: accumulated depreciation for:				
Buildings and improvements	(120,367)	(46,904)	-	(167,271)
Total capital assets, depreciated, net	335,514	9,509	-	345,023
Business-type activities capital assets, net	\$ 335,514	\$ 9,509	\$ -	\$ 345,023

THE COUNTY COMMISSIONERS OF CAROLINE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

6. **Capital assets (continued)**

Caroline County (continued)

Non-depreciable infrastructure consists primarily of road-base and rights of way.

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:

General government	\$ 790,264
Public Safety	975,367
Public Works	959,003
Health	3,427
Recreation and culture	298,874
Conservation of natural resources	45,883
<hr/>	
Total depreciation expense - Governmental Activities	3,072,818

Business-type Activities:

Broadband Supply	\$ 46,407
Public works	497
<hr/>	
	\$ 46,904

THE COUNTY COMMISSIONERS OF CAROLINE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

6. Capital assets (continued)

Discretely Presented Component Units

Board of Education

Capital asset activity for the Board of Education for the fiscal year ended June 30, 2012 was as follows:

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Transfers / Decreases</u>	<u>Ending Balance</u>
Capital assets, not depreciated:				
Construction in progress	\$ 27,806,672	\$ 208,420	\$ (27,806,672)	\$ 208,420
Land	-	182,087	-	182,087
Total capital assets, not depreciated	27,806,672	390,507	(27,806,672)	390,507
Capital assets, depreciated:				
Buildings and improvements	75,893,775	2,390,428	27,719,404	106,003,607
Furniture and equipment	1,208,850	207,045	87,268	1,503,163
Software	608,357	-	-	608,357
Vehicles	1,537,729	106,913	(37,604)	1,607,038
Total capital assets, depreciated	79,248,711	2,704,386	27,769,068	109,722,165
Less: accumulated depreciation for:				
Buildings and improvements	(25,274,736)	(1,876,177)	-	(27,150,913)
Furniture and equipment	(912,862)	(64,986)	-	(977,848)
Software	(497,205)	(40,616)	-	(537,821)
Vehicles	(811,773)	(145,614)	9,401	(947,986)
Total accumulated depreciation	(27,496,576)	(2,127,393)	9,401	(29,614,568)
Total capital assets, depreciated, net	51,752,135	576,993	27,778,469	80,107,597
Governmental activities capital assets, net	\$ 79,558,807	\$ 967,500	\$ (28,203)	\$ 80,498,104
<u>Business-type activities:</u>				
Equipment	\$ 940,473	\$ 27,750	\$ (23,800)	\$ 944,423
Vehicles	36,745	-	-	36,745
Total capital assets being depreciated	977,218	27,750	(23,800)	981,168
Less: accumulated depreciation:				
Equipment	(738,913)	(61,578)	18,247	(782,244)
Vehicles	(31,585)	-	-	(31,585)
Total accumulated depreciation	(770,498)	(61,578)	18,247	(813,829)
Business-type activities capital assets, net	\$ 206,720	\$ (33,828)	\$ (5,553)	\$ 167,339

THE COUNTY COMMISSIONERS OF CAROLINE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

6. Capital assets (continued)

Board of Education (continued)

Depreciation expense for the fiscal year ended June 30, 2012 was charged to governmental functions as follows:

Administration	\$	94,042
School management and support		23,287
Other instructional costs		1,890,564
Pupil transportation		86,524
Maintenance of plant		32,976
		\$ 2,127,393
Total depreciation expense	\$	2,127,393

Library

Capital asset activity for the Library for the year ended June 30, 2012 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets:				
Furnishings and equipment	\$ 918,307	\$ 71,903	\$ (249,242)	\$ 740,968
Vehicles	114,769	-	-	114,769
Leasehold improvements	282,145	-	-	282,145
Books and materials	1,241,736	114,386	(225,037)	1,131,085
	2,556,957	186,289	(474,279)	2,268,967
Accumulated depreciation:				
Furnishings and equipment	(797,120)	(51,285)	249,242	(599,163)
Vehicles	(89,308)	(16,974)	-	(106,282)
Leasehold improvements	(38,947)	(9,405)	-	(48,352)
Books and materials	(696,894)	(153,563)	225,037	(625,420)
	(1,622,269)	(231,227)	474,279	(1,379,217)
Net capital assets	\$ 934,688	\$ (44,938)	\$ -	\$ 889,750

Governmental activities depreciation expense was \$231,227 for the fiscal year ended June 30, 2012.